

Union General Hospital, Inc.
Accountants' Reports and Financial Statements
June 30, 2011 and 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **MAR 14 2012**

BKD
CPAs & Advisors

Union General Hospital, Inc.

June 30, 2011 and 2010

Contents

| | |
|--|----------|
| Independent Accountants' Report on Financial Statements | 1 |
|--|----------|

Financial Statements

| | |
|-------------------------------------|---|
| Balance Sheets | 2 |
| Statements of Operations | 3 |
| Statements of Changes in Net Assets | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 |

| | |
|---|-----------|
| Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.. | 16 |
| Schedule of Findings and Responses | 18 |

Independent Accountants' Report on Financial Statements

Board of Directors
Union General Hospital, Inc
Farmerville, Louisiana

We have audited the accompanying balance sheet of Union General Hospital, Inc as of June 30, 2011, and the related statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Union General Hospital, Inc as of and for the year ended June 30, 2010, were audited by other accountants whose report dated November 1, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Union General Hospital, Inc as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2012, on our consideration of Union General Hospital, Inc's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

January 11, 2012

Union General Hospital, Inc.

Balance Sheets

June 30, 2011 and 2010

Assets

| | 2011 | 2010 |
|--|--------------|--------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,633,741 | \$ 2,360,269 |
| Patient accounts receivable, net of allowance, 2011 - \$1,212,102, 2010 - \$1,032,504 | 1,148,397 | 1,044,794 |
| Estimated amounts due from third-party payers | 467,791 | 491,320 |
| Supplies | 156,855 | 148,118 |
| Prepaid expenses and other | 100,381 | 86,242 |
| Total current assets | 4,507,165 | 4,130,743 |
| Assets Limited As To Use | | |
| Internally designated | 26,552 | 26,609 |
| Property and Equipment, At Cost | | |
| Land and land improvements | 221,273 | 190,723 |
| Buildings and leasehold improvements | 4,113,291 | 3,787,316 |
| Equipment | 4,288,716 | 4,195,352 |
| Construction in progress | - | 208,026 |
| | 8,623,280 | 8,381,417 |
| Less accumulated depreciation | (6,655,663) | (6,042,745) |
| | 1,967,617 | 2,338,672 |
| Other Assets | | |
| Other | 112,096 | 112,096 |
| Total assets | \$ 6,613,430 | \$ 6,608,120 |

Liabilities and Net Assets

| | 2011 | 2010 |
|---|--------------------------------|--------------------------------|
| Current Liabilities | | |
| Notes payable to bank, unsecured | \$ - | \$ 250,000 |
| Current maturities of long-term debt | 151,232 | 82,444 |
| Accounts payable | 280,535 | 303,523 |
| Accrued expenses | <u>317,354</u> | <u>418,995</u> |
| Total current liabilities | 749,121 | 1,054,962 |
| Long-term Debt | <u>-</u> | <u>138,106</u> |
| Total liabilities | <u>749,121</u> | <u>1,193,068</u> |
| Net Assets | | |
| Unrestricted | 5,417,074 | 4,889,107 |
| Temporarily restricted | <u>447,235</u> | <u>525,945</u> |
| Total net assets | <u>5,864,309</u> | <u>5,415,052</u> |
| Total liabilities and net assets | <u><u>\$ 6,613,430</u></u> | <u><u>\$ 6,608,120</u></u> |

Union General Hospital, Inc.

Statements of Operations

Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Unrestricted Revenues, Gains and Other Support | | |
| Net patient service revenue | \$ 11,965,807 | \$ 11,289,097 |
| Other revenue | 146,888 | 132,215 |
| Gain on sale of property and equipment | 190 | 9,347 |
| | <u>12,112,885</u> | <u>11,430,659</u> |
| Expenses and Losses | | |
| Salaries and wages | 4,309,228 | 3,981,894 |
| Employee benefits | 637,248 | 607,681 |
| Purchased services and professional fees | 3,427,558 | 3,337,707 |
| Supplies and other | 830,918 | 770,507 |
| Other expenses | 1,080,280 | 1,022,093 |
| Depreciation and amortization | 660,627 | 661,591 |
| Interest | 20,316 | 31,223 |
| Provision for uncollectible accounts | 1,331,942 | 1,476,062 |
| | <u>12,298,117</u> | <u>11,888,758</u> |
| Operating Loss | <u>(185,232)</u> | <u>(458,099)</u> |
| Other Income | | |
| Contributions received | 627,006 | 319,647 |
| Investment income | 7,483 | 4,026 |
| | <u>634,489</u> | <u>323,673</u> |
| Excess (Deficiency) of Revenues Over Expenses | 449,257 | (134,426) |
| Investment return - unrealized gain | - | 194,567 |
| Net assets released from restriction | 78,710 | 89,373 |
| | <u>78,710</u> | <u>89,373</u> |
| Increase in Unrestricted Net Assets | <u>\$ 527,967</u> | <u>\$ 149,514</u> |

Union General Hospital, Inc.
Statements of Changes in Net Assets
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|----------------------------|----------------------------|
| Unrestricted Net Assets | | |
| Excess (deficiency) of revenues over expenses | \$ 449,257 | \$ (134,426) |
| Investment return - unrealized gain | - | 194,567 |
| Net assets released from restriction | <u>78,710</u> | <u>89,373</u> |
| Increase in unrestricted net assets | <u>527,967</u> | <u>149,514</u> |
| Temporarily Restricted Net Assets | | |
| Net assets released from restriction | <u>(78,710)</u> | <u>(89,373)</u> |
| Decrease in temporarily restricted net assets | <u>(78,710)</u> | <u>(89,373)</u> |
| Change in Net Assets | 449,257 | 60,141 |
| Net Assets, Beginning of Year | <u>5,415,052</u> | <u>5,354,911</u> |
| Net Assets, End of Year | <u><u>\$ 5,864,309</u></u> | <u><u>\$ 5,415,052</u></u> |

Union General Hospital, Inc.
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Operating Activities | | |
| Change in net assets | \$ 449,257 | \$ 60,141 |
| Items not requiring (providing) operating cash flows | | |
| Gain on investments | - | (194,567) |
| Depreciation and amortization | 660,627 | 661,591 |
| Changes in | | |
| Patient accounts receivable, net | (104,429) | 389,184 |
| Estimated amounts due from and to third-party payers | 23,529 | (41,054) |
| Accounts payable and accrued expenses | (124,629) | (6,230) |
| Other current assets and liabilities | (22,876) | (7,396) |
| Net cash provided by operating activities | <u>881,479</u> | <u>861,669</u> |
| Investing Activities | | |
| Proceeds from disposition of investments | - | 194,567 |
| Change in assets whose use is limited | 57 | 57 |
| Purchase of property and equipment | (288,758) | (317,408) |
| Net cash used in investing activities | <u>(288,701)</u> | <u>(122,784)</u> |
| Financing Activities | | |
| Proceeds from issuance of long-term debt | - | 220,550 |
| Principal payments on long-term debt | (69,306) | (77,184) |
| Proceeds from issuance of notes payable to bank | - | 250,000 |
| Principal payments on short-term note | (250,000) | (607,020) |
| Net cash used in financing activities | <u>(319,306)</u> | <u>(213,654)</u> |
| Increase in Cash and Cash Equivalents | 273,472 | 525,231 |
| Cash and Cash Equivalents, Beginning of Year | <u>2,360,269</u> | <u>1,835,038</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,633,741</u> | <u>\$ 2,360,269</u> |
| Supplemental Cash Flows Information | | |
| Interest paid | <u>\$ 21,090</u> | <u>\$ 29,964</u> |

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Union General Hospital, Inc. (the "*Hospital*") is a not for profit critical access hospital (CAH), located in Farmerville, Louisiana. The Hospital provides inpatient, outpatient, and emergency care services for the residents of Farmerville, Louisiana, and the surrounding area. Admitting physicians are primarily practitioners in the local area.

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (the "*District*") The hospital facilities were originally constructed by the District, which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair and replace equipment as needed. The lease was amended and restated effective September 8, 2010 and the term extended through March 31, 2019. The agreement will renew for an additional 10 year period upon mutual agreement of the Hospital and District.

The net book value of the District's facility was recorded on the Hospital's financial statements in the initial year of the agreement, and the remaining net book value is reported as temporarily restricted net assets each year. Annual depreciation related to the District assets are reported as assets released from restrictions in the statement of changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Effective July 21, 2010, the Federal Deposit Insurance Corporation's (FDIC) insurance limits were permanently increased to \$250,000. At June 30, 2011, the Hospital's cash accounts did not exceed federally insured limits. The Hospital also holds repo agreements in a financial institution in the amount of \$2,406,184 for the year ended June 30, 2011.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors (the Board) for payment of employee sick leave over which the Board retains control and may at its discretion subsequently use for other purposes. At June 30, 2011 and 2010, assets limited as to use were comprised of cash and totaled \$26,552 and \$26,609, respectively.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|----------------------------|------------|
| Buildings and improvements | 5-20 years |
| Land improvements | 5-25 years |
| Equipment | 3-20 years |

Donations of property and equipment are reported at fair value in restricted net assets and released from restriction as the assets are used over their useful lives. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Construction in progress at June 30, 2010, included amounts related to the modular medical clinic building.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Long-lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2011 and 2010.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. See Note 5.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

The Hospital participates in the Louisiana Patients' Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides \$400,000 in coverage per occurrence above the first \$100,000 per occurrence. The first \$100,000 is covered by the Louisiana Hospital Association Malpractice and General Liability Trust. There is not a limitation placed on the number of occurrences covered.

Worker's Compensation

The Hospital participates in the Louisiana Hospital Association's Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other-than-trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through January 11, 2012, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare The Hospital is certified as a CAH by Medicare. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25, and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's cost reports have been audited through June 30, 2009.

Medicaid Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Approximately 43 percent and 50 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Additionally, the Hospital participated in the Medicaid Disproportionate Share program. In connection with this program, the Hospital received net payments of \$425,349 and \$593,553, respectively, for the years ended June 30, 2011 and 2010. The amounts the Hospital may

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

expect to receive from these programs during the upcoming fiscal year have not been determined

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of gross receivables from patients and third-party payers at June 30, 2011 and 2010, is

| | 2011 | 2010 |
|--------------------------|------|------|
| Medicare | 33% | 37% |
| Medicaid | 8% | 16% |
| Other third-party payers | 14% | 11% |
| Patients | 45% | 36% |
| Totals | 100% | 100% |

Note 4: Long-term Debt

Note payable to bank in an original amount of \$220,550, due on demand, but if no demand is made then three annual installments of approximately \$82,444, which includes interest at 5.87%. Secured by cash deposits held by lender.

| | 2011 | 2010 |
|--|------------|------------|
| | \$ 151,232 | \$ 220,550 |

Future maturities of long-term debt are

| | Long-term Debt |
|------|----------------|
| 2012 | \$ 73,314 |
| 2013 | 77,918 |
| | \$ 151,232 |

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose

| | 2011 | 2010 |
|---|------------|------------|
| Property and equipment to be used in provision of healthcare services | \$ 447,235 | \$ 525,945 |

During 2011 and 2010, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of indigent care and health care education in the amounts of \$78,710 and \$89,373, respectively

Note 6: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$24,979 and \$19,491 for June 30, 2011 and 2010, respectively

Note 7: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

| | 2011 | 2010 |
|----------------------------|----------------------|----------------------|
| Health care services | \$ 10,740,735 | \$ 10,364,415 |
| General and administrative | 1,557,382 | 1,524,343 |
| | <u>\$ 12,298,117</u> | <u>\$ 11,888,758</u> |

Note 8: Operating Leases

Noncancellable operating leases for equipment and offices expire in various years through 2014. These leases generally contain renewal options for periods ranging from 3 to 6 years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Future minimum lease payments at June 30 were

| | | |
|-------------------------------|----|---------------|
| 2012 | \$ | 23,946 |
| 2013 | | 6,046 |
| 2014 | | <u>2,055</u> |
| Future minimum lease payments | \$ | <u>32,047</u> |

Note 9: Employee Benefits

Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$38,153 and \$37,961 for 2011 and 2010, respectively.

Note 10: Related-party Transactions

The Hospital from time to time conducts business with organizations that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. During 2011 and 2010, that the Hospital maintained funds at Community Trust Bank where a Hospital Board member serves on the Board of Directors. In addition, Community Trust Bank has issued a note payable to the Hospital.

In March 2008, the voters of the District approved the authorization of a ten-year, \$5.56 million, property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping, and operating the Hospital facilities. The District Board of Directors determines how the tax proceeds will be spent. At the District's election, the Hospital may receive a portion of the tax proceeds from the District as a contribution. During June 30, 2011 and 2010, the Hospital received \$282,179 and \$313,647, respectively, from the East Union Service District.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2

Admitting Physicians

The Hospital is served by 3 admitting physicians whose patients comprise approximately 20 percent of the Hospital's net patient service revenue with an additional 3 emergency room physicians comprising approximately 60 percent of additional net patient service revenue. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on Hospital operations.

Suppliers

The Hospital is dependent on a third-party provider of emergency care services whose contract renews annually. Failure to obtain annual renewal of this contract or locate an alternative supplier could result in a future disruption of service to patients.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Management Agreements

The Hospital has entered into a contract for administrative services with IASIS Glenwood Regional Medical Center, which automatically renews each year. This contract requires that the management company provide personnel to perform duties as the Hospital administrator. Fees paid during the current year approximated \$13,000 a month.

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which, in some cases, have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Current economic conditions, including the rising unemployment rate, have made it difficult for patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

**Independent Accountants' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Union General Hospital, Inc
Farmerville, Louisiana

We have audited the financial statements of Union General Hospital, Inc as of and for the year ended June 30, 2011, and have issued our report thereon dated January 11, 2012 which contained a reference to the report of other accountants' We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as item 2011-1 that we consider to be significant deficiencies in internal control over financial reporting A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 11-2.

The Hospital's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Hospital, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

BKD, LLP

January 11, 2012

Union General Hospital, Inc.
Schedule of Findings and Responses
Year Ended June 30, 2011

| Reference Number | Finding |
|---------------------|--|
| 11-1 | <p>Segregation of Duties</p> <p>Criteria Personnel functions that have the ability to conceal and perpetrate fraud should be segregated</p> <p>Condition The Hospital has a lack of segregation of duties regarding bank reconciliations, payment processing and payroll processing</p> <p>Context The personnel that reconciles the bank account also makes journal entries and processes payments, the business office manager has the ability to take payments, post adjustments, and write-off accounts, the payroll personnel has the ability to create a new employee within the system and generate payroll direct deposits</p> <p>Effect The ability to conceal and perpetrate fraud</p> <p>Cause The Hospital operates a smaller/medium sized facility and has limited personnel</p> <p>Recommendation The Hospital should segregate incompatible duties to improve its internal controls related to cash receipts, cash payments and payroll. Specifically, individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. Additionally, personnel with access to patient payments should not also have the ability to authorize or approve adjustments to patient accounts</p> <p>Views of responsible officials and planned corrective actions We understand the importance of the Segregation of Duties as it relates to maintaining internal control. As mentioned, the Hospital does have limited personnel in certain areas that creates a lack of Segregation of Duties, but we believe that we have sufficient checks and balances in place in those areas to adequately minimize any risks.</p> |

Union General Hospital, Inc.
Schedule of Findings and Responses
Year Ended June 30, 2011

| Reference Number | Finding |
|-----------------------------|---|
| 11-2 | <p data-bbox="451 449 1078 476">Delay in Completion of Audited Financial Statements</p> <p data-bbox="456 517 1235 612">Criteria The annual audited financial statements of the Hospital are required to be completed and submitted within six months of the Hospital's year end or December 31, 2011</p> <p data-bbox="456 653 1203 717">Condition The audited financial statements were not completed and submitted by December 31, 2011</p> <p data-bbox="451 757 1203 821">Effect Noncompliance with state regulations regarding financial reporting</p> <p data-bbox="451 861 1187 1023">Cause The Center for Medicare and Medicaid Services (CMS) issued updated forms for the filing of the 2011 annual cost report Due to delays in the issuance of the form, CMS authorized extensions to filing which extended the due dates beyond the six month time frame</p> <p data-bbox="451 1064 1195 1159">Recommendation The Hospital should ensure that internal controls exist to ensure the financial statements are submitted timely in the future</p> <p data-bbox="451 1200 1198 1361">Views of responsible officials and planned corrective actions We believe this is an isolated event due to the delay in the availability of Medicare annual cost reporting forms In the future, management will monitor the filing date to ensure that the audit is submitted timely</p> |

Union General Hospital, Inc.

Audit Results

June 30, 2011



Union General Hospital, Inc.

June 30, 2011

Contents

| | |
|---|-----------|
| Required Communications | 1 |
| Passed Adjustments | 5 |
| Management Representation Letter | 7 |
| Other Information | |
| Details of Operating Income – Amounts (Unaudited) | 14 |
| Details of Operating Income – Percents (Unaudited) | 15 |

Board of Directors
Union General Hospital, Inc
Farmerville, Louisiana

As part of our audit of the financial statements of Union General Hospital, Inc, as of and for the year ended June 30, 2011, we wish to communicate the following to you

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in Government Auditing Standards Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and

practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows

No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates

Allowance for doubtful accounts and contractual adjustments

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures

Net patient service revenue

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material, however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include

Proposed Audit Adjustments Recorded

- Net assets released from restrictions
- Cost report settlement estimate

Proposed Audit Adjustments Not Recorded

- Recognition of capital lease as operating lease
- Depreciation expense variance

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Hospital's application of accounting principles

No matters are reportable

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements

No matters are reportable

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters

No matters are reportable

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed

No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management

No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters

No matters are reportable

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit

- *Management representation letter*

This letter is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties

BKD, LLP

January 11, 2012

5

Union General Hospital, Inc
ATTACHMENT

The attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the amounts if the uncorrected misstatements identified were corrected

QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|-------------------------|-------------------------|---------------|--------------------------------|----------|
| Current Assets | 4,507,165 | | 4,507,165 | |
| Non-Current Assets | 2,106,265 | 75,069 | 2,181,334 | 3.56% |
| Current Liabilities | (749,121) | | (749,121) | |
| Non-Current Liabilities | | (96,678) | (96,678) | |
| Current Ratio | 6.017 | | 6.017 | |
| | | | | |
| Total Assets | 6,613,430 | 75,069 | 6,688,499 | 1.14% |
| Net Assets | (5,864,309) | 21,609 | (5,842,700) | -0.37% |
| | | | | |
| Revenues | (12,747,374) | | (12,747,374) | |
| Expenses | 12,298,127 | 1,177 | 12,299,304 | 0.01% |
| Change in Net Assets | (449,247) | 1,177 | (448,070) | -0.26% |



...caring when it counts.

January 11, 2012

BKD, LLP
Certified Public Accountants
7901 Woodway, Suite 100
Waco, Texas 76712

We are providing this letter in connection with your audit of our financial statements as of and for the year ended June 30, 2011. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

- 1 The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
- 2 We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
- 3 We understand that the term related party refers to an affiliate, principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method, and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.
- 4 We have made available to you:
 - (a) All financial records and related data

- (b) All minutes of Board of Directors' meetings held through the date of this letter
 - (c) All significant contracts and grants
 - (d) All peer review organizations, fiscal intermediary and third-party payer reports and information
- 5 We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:
- (a) Misappropriation of assets
 - (b) Misrepresented or misstated assets or liabilities
- 6 We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
- We understand that, depending on both the nature of the uncorrected misstatement(s) and the federal and state income tax rules applicable thereto, each uncorrected misstatement may or may not be taken into account for purposes of determining our federal and/or state taxable income and any income tax liability for the current year
- 7 We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud
- 8 We have no knowledge of any known or suspected
- (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements
- 9 We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others

- 10 Except as reflected in the financial statements, there are no
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities
 - (b) Material transactions omitted or improperly recorded in the financial records
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations
 - (d) Events occurring subsequent to the balance sheet date requiring adjustment or disclosure in the financial statements
 - (e) Related party transactions, balances, arrangements, or guarantees
 - (f) Agreements to purchase assets previously sold
 - (g) Violations of law, regulations or requirements of regulatory agencies for which losses should be accrued or matters disclosed in the financial statements
 - (h) Unasserted claims or assessments that our attorneys have advised us are probable of assertion
 - (i) Capital stock repurchase options or agreements, or capital stock reserved for options, warrants, conversions, or other requirements
 - (j) Restrictions on cash balances or compensating balance agreements
 - (k) Guarantees, whether written or oral, under which the Hospital is contingently liable
- 11 We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.
- 12 Adequate provisions and allowances have been accrued for any material losses from
 - (a) Uncollectible receivables
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments

- (c) Purchase commitments in excess of normal requirements or above prevailing market prices
- 13 Except as disclosed in the financial statements, the Hospital has
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances
 - (b) Complied with all aspects of contractual agreements for which noncompliance would materially affect the financial statements
- 14 With respect to the Hospital's possible exposure to past or future medical malpractice assertions
- (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured
 - (d) Management does not expect any claims to exceed malpractice insurance limits
- 15 With respect to any nonattest services you have provided us during the year, including assisting with the preparation of a draft of the financial statements
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted
- 16 We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45

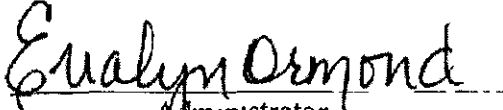
- 17 We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events
- 18 We acknowledge that we are responsible for compliance with applicable laws regulations and provisions of contracts and grant agreements
- 19 We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives
- 20 We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance
- 21 We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report
- 22 We have a process to track the status of audit findings and recommendations
- 23 We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies
- 24 We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*
- 25 The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year
- 26 The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods

and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

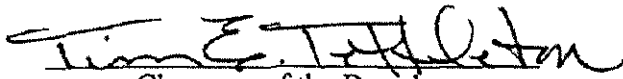
- 27 We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
- 28 Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary, properly approved by regulatory bodies, if required, and properly rendered.
- 29 With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
- 30 We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Hospital's financial statements. Further, management and the Board are solely responsible for all

aspects of managing the Hospital, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans

UNION GENERAL HOSPITAL, INC.


Administrator


Chief Financial Officer


Chairman of the Board

Union General Hospital Inc.
Details of Operating Income
Amounts (Unaudited)
For the Years Ended June 30,

| | 2008 | 2009 | 2010 | 2011 |
|--|--------------------|--------------------|---------------------|--------------------|
| Inpatient revenue | \$ 4,162,275 | \$ 3,908,920 | \$ 4,220,442 | \$ 4,998,567 |
| Outpatient revenue | 9,586,066 | 10,792,349 | 10,734,643 | 11,904,240 |
| Rural health clinic revenue | <u>1,781,538</u> | <u>1,090,170</u> | <u>1,079,901</u> | <u>1,204,064</u> |
| Total patient service revenues | <u>15,529,879</u> | <u>15,791,439</u> | <u>16,034,986</u> | <u>18,106,871</u> |
| Contractual deductions | (4,794,024) | (4,113,235) | (3,913,048) | (5,012,025) |
| Charity care | - | - | (19,491) | (24,979) |
| Other deductions | (1,048,611) | (1,392,350) | (1,406,903) | (1,529,409) |
| Disproportionate share and other credits | <u>725,163</u> | <u>417,741</u> | <u>593,553</u> | <u>425,349</u> |
| Total deductions from revenues | <u>(5,117,472)</u> | <u>(5,087,844)</u> | <u>(4,745,889)</u> | <u>(6,141,064)</u> |
| Net patient service revenues | 10,412,407 | 10,703,595 | 11,289,097 | 11,965,807 |
| Other revenue | 136,029 | 126,938 | 132,215 | 146,888 |
| Gain/loss on sale of property and equipment | <u>34,396</u> | <u>(1,346)</u> | <u>9,347</u> | <u>190</u> |
| | <u>10,582,832</u> | <u>10,829,187</u> | <u>11,430,659</u> | <u>12,112,885</u> |
| Salaries and wages | 3,516,754 | 3,666,451 | 3,981,894 | 4,309,228 |
| Employee benefits | 279,335 | 301,729 | 315,639 | 313,101 |
| Payroll taxes | 269,565 | 274,435 | 292,042 | 324,147 |
| Purchased/contracted services | 2,267,726 | 2,375,541 | 2,464,913 | 2,496,695 |
| Payments to physicians - ER | 789,240 | 793,910 | 857,464 | 912,131 |
| Payments to physicians - other | 49 | 8,819 | 15,330 | 18,732 |
| Supplies | 880,819 | 659,625 | 770,507 | 830,918 |
| Education and training | 44,658 | 65,691 | 53,128 | 60,679 |
| Travel | 28,111 | 34,378 | 44,511 | 58,633 |
| Telephone and utilities | 199,056 | 197,841 | 188,381 | 184,571 |
| Maintenance and repairs | 79,858 | 57,468 | 100,622 | 92,253 |
| Rental expense | 202,307 | 175,890 | 163,348 | 156,352 |
| Insurance | 224,278 | 222,923 | 230,320 | 212,671 |
| Legal and professional | 82,768 | 45,704 | 63,393 | 124,818 |
| Interest expense | 16,141 | 33,388 | 31,223 | 20,316 |
| Depreciation and amortization | 342,950 | 626,607 | 661,591 | 660,627 |
| Bad debts and uncollected accounts | 1,468,533 | 1,865,271 | 1,476,062 | 1,331,942 |
| Other expenses | <u>186,140</u> | <u>175,109</u> | <u>178,390</u> | <u>190,303</u> |
| Total operating expenses | <u>10,878,288</u> | <u>11,580,780</u> | <u>11,888,758</u> | <u>12,298,117</u> |
| Operating Loss | <u>(295,456)</u> | <u>(751,593)</u> | <u>(458,099)</u> | <u>(185,232)</u> |
| Contributions from District | 154,540 | 293,103 | 313,647 | 282,179 |
| Investment income | 83,105 | 3,145 | 4,026 | 7,483 |
| Contributions and grants | <u>510,834</u> | <u>483,021</u> | <u>6,000</u> | <u>344,827</u> |
| Excess (Deficiency) of Revenues over Expenses | <u>\$ 453,023</u> | <u>\$ 27,676</u> | <u>\$ (134,426)</u> | <u>\$ 449,257</u> |

Other Information

Union General Hospital Inc.
Details of Operating Income
Percents (Unaudited)
For the Years Ended June 30,

| | 2008 | 2009 | 2010 | 2011 |
|--|-----------------|-----------------|-----------------|-----------------|
| Inpatient revenue | 26 80 % | 24 75 % | 26 32 % | 27 61 % |
| Outpatient revenue | 61 73 % | 68 34 % | 66 95 % | 65 74 % |
| Rural health clinic revenue | 11 47 % | 6 90 % | 6 73 % | 6 65 % |
| Total patient service revenues | 100 00 % | 100 00 % | 100 00 % | 100 00 % |
| Contractual deductions | (30 87)% | (26 05)% | (24 40)% | (27 68)% |
| Charity care | 0 00 % | 0 00 % | (0 12)% | (0 14)% |
| Other deductions | (6 75)% | (8 82)% | (8 77)% | (8 45)% |
| Disproportionate share and other credits | 4 67 % | 2 65 % | 3 70 % | 2 35 % |
| Total deductions from revenues | (32 95)% | (32 22)% | (29 60)% | (33 92)% |
| Net patient service revenues | 67 05% | 67 78% | 70 40% | 66 08% |
| Other revenue | 0 88 % | 0 80 % | 0 82 % | 0 81 % |
| Gain/loss on sale of property and equipment | 0 22 % | (0 01)% | 0 06 % | 0 00 % |
| | 68 14 % | 68 58 % | 71 29 % | 66 90 % |
| Salaries and wages | 22 65 % | 23 22 % | 24 83 % | 23 80 % |
| Employee benefits | 1 80 % | 1 91 % | 1 97 % | 1 73 % |
| Payroll taxes | 1 74 % | 1 74 % | 1 82 % | 1 79 % |
| Purchased/contracted services | 14 60 % | 15 04 % | 15 37 % | 13 79 % |
| Payments to physicians - ER | 5 08 % | 5 03 % | 5 35 % | 5 04 % |
| Payments to physicians - other | 0 00 % | 0 06 % | 0 10 % | 0 10 % |
| Supplies | 5 67 % | 4 18 % | 4 81 % | 4 59 % |
| Education and training | 0 29 % | 0 42 % | 0 33 % | 0 34 % |
| Travel | 0 18 % | 0 22 % | 0 28 % | 0 32 % |
| Telephone and utilities | 1 28 % | 1 25 % | 1 17 % | 1 02 % |
| Maintenance and repairs | 0 51 % | 0 36 % | 0 63 % | 0 51 % |
| Rental expense | 1 30 % | 1 11 % | 1 02 % | 0 86 % |
| Insurance | 1 44 % | 1 41 % | 1 44 % | 1 17 % |
| Legal and professional | 0 53 % | 0 29 % | 0 40 % | 0 69 % |
| Interest expense | 0 10 % | 0 21 % | 0 19 % | 0 11 % |
| Depreciation and amortization | 2 21 % | 3 97 % | 4 13 % | 3 65 % |
| Bad debts and uncollected accounts | 9 46 % | 11 81 % | 9 21 % | 7 36 % |
| Other expenses | 1 20 % | 1 11 % | 1 11 % | 1 05 % |
| Total operating expenses | 70 05 % | 73 34 % | 74 14 % | 67 92 % |
| Operating Loss | (1 90)% | (4 76)% | (2 86)% | (1 02)% |
| Contributions from District | 1 00 % | 1 86 % | 1 96 % | 1 56 % |
| Investment income | 0 54 % | 0 02 % | 0 03 % | 0 04 % |
| Contributions and grants | 3 29 % | 3 06 % | 0 04 % | 1 90 % |
| Excess (Deficiency) of Revenues over Expenses | 2 92 % | 0 18 % | (0 84)% | 2 48 % |